

National Credit Union Administration Interest Policy

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**NCUA Community Development Revolving Loan Fund
Loan Interest Rate Policy
Effective January 1, 2015**

The purpose of this policy is to establish specific guidelines for setting the interest rate on loans made through the Community Development Revolving Loan Fund (CDRLF).

I. Authority

Per National Credit Union Administration (NCUA) Rules and Regulations §705.5(d), the NCUA Board will announce changes to the CDRLF Loan Interest Rate Policy. The NCUA Board has delegated authority to determine interest rates on CDRLF loans to the Director, Office of Small Credit Union Initiatives (OSCUI) via NCUA Delegations of Authority, Special Activities 21 (SPE21).

II. Policies and Objectives

It is the policy of NCUA to charge a below market rate of interest on CDRLF loans that is high enough to generate a modest and affordable return. The earnings on loans are intended to fund additional loans and grant activity. The objective of this earnings strategy is to augment the available sources of CDRLF funds to benefit additional qualified credit unions in need.

Another program goal of the CDRLF is maximum deployment of available loan funds. To fulfill this goal, NCUA will increase efforts to promote credit union awareness of funding availability when surplus funds arise.

III. Rate Setting Factors

The OSCUI Director will consider the following factors to determine the appropriate rate on CDRLF loans:

Factor #1 – Competitive Offerings

Alternative funding opportunities for potential CDRLF loan recipients.

Factor #2 – Opportunity Costs

Credit risk and potential income from alternative investments in relation to the resources available to the CDRLF.

Factor #3 – Functional Costs

Operational costs incurred by NCUA associated with the administration of the CDRLF.

Factor #4 –Strategic Goals

Goals of the NCUA, in particular the goals of OSCUI.

IV. Rate Setting Calculation Methodologies

Indexed Interest Rate Guidelines – Methodology A

The Indexed Interest Rate Guideline Table below provides guidelines/criteria to index the rate to the two-year Constant Maturity Treasury (CMT) rate as posted on the website of the U.S. Department of the Treasury. The two-year maturity correlates with the weighted average maturity of the CDRLF loan portfolio as of the date this policy was developed.

Indexed Interest Rate Guideline Table

Constant Maturity Treasury (CMT) rate ¹	CDRLF Loan Rate Loans ≤ \$300,000	CDRLF Loan Rate Loans > \$300,000
0.00% - 2.00%	CMT + 20 basis points	CMT + 40 basis points
2.01% - 5.00%	CMT + 40 basis points	CMT + 60 basis points
5.01% and higher	CMT + 60 basis points	CMT + 80 basis points

Loan Demand Driven Interest Rate Guidelines – Methodology B

This guideline provides for interest rates to increase with rising loan demand. Historically, loan demand followed the market conditions.

Resulting APR for the lowest tier (<25%) of Methodology B is calculated based on the market driven strategy (2 yr CMT of 0.42% plus 0.20% =.62%). The 2 yr CMT of 0.42% was calculated by averaging the interest over a 15 day period in October 2014.

Ratio of Total CDRLF Loans Outstanding to Total Loan Appropriations ¹	Resulting APR
<25%	0.60%
26% -50%	1.20%
50% - 75%	2.40%
75% - 100%	4.80%

¹ Source: <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield>

V. Reporting Requirements

Changes to this NCUA CDRLF Loan Interest Rate policy, including rate changes, shall be distributed to the NCUA Board and Executive Director prior to implementation or announcement. Factors utilized in determining the Interest Rate will be documented.

VI. Internal Controls

Changes to this NCUA CDRLF Loan Interest Rate policy, including rate changes, shall be distributed to the NCUA Board and Executive Director prior to implementation or announcement. Factors utilized in determining the Interest Rate will be documented.

VII. 2015 Rate Information - Effective January 1, 2015

After considering the previously addressed factors 1 through 4 in this policy, the OSCUI Director opted to maintain the rate based on current loan demand. The interest rate is set to 0.60%.

Basis for the Decision

Based on Methodology B, 1.20% should be the new interest rate. However, an interest rate increase may decrease loan demand and prevent the CDRLF program from meeting its objective of providing low cost funds to low income credit unions and financial services to the underserved community.

Alternatively when analyzed from the opportunity cost and alternative investment perspective, the fund will lose \$30,000 annually if invested in overnight funds (current treasury rate of 0.03%) compared to loaning out to credit unions at 0.60%.²

Resulting APR Change Schedule for 2015:

Rate Review Period	Outstanding Loan Balance Period	Rate Effective Date
November 2015	September 2015	January 2016

² [Interest Rate Policy Supporting Information.xlsx](#)